

VZCZCXRO6341  
RR RUEHRG  
DE RUEHBR #1098/01 2441910  
ZNR UUUUU ZZH  
R 011910Z SEP 09  
FM AMEMBASSY BRASILIA  
TO RUEHC/SECSTATE WASHDC 4988  
INFO RUEHSO/AMCONSUL SAO PAULO 4476  
RUEHRG/AMCONSUL RECIFE 9871  
RUEHRI/AMCONSUL RIO DE JANEIRO 8132  
RUEHBU/AMEMBASSY BUENOS AIRES 6338  
RUEHAC/AMEMBASSY ASUNCION 7641  
RUEHMN/AMEMBASSY MONTEVIDEO 7818  
RUEHSG/AMEMBASSY SANTIAGO 1014  
RUEHLP/AMEMBASSY LA PAZ 6949  
RUCPDOG/USDOC WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHDC

UNCLAS SECTION 01 OF 04 BRASILIA 001098

SENSITIVE BUT UNCLASSIFIED  
SIPDIS

STATE FOR WHA/BSC, EEB/IFD/ODF, INR/IAA, INR/R/AA  
STATE PASS USTR FOR KATE DUCKWORTH  
NSC FOR ROSSELLO  
TREASURY FOR KAZCMAREK  
USDOC FOR 4332/ITA/MAC/WH/OLAC  
USDOC ALSO FOR 3134/USFCS/OIO  
USAID FOR LAC/AA

E.O. 12958: N/A

TAGS: [PGOV](#) [SOCI](#) [SCUL](#) [EFIN](#) [ECON](#) [PREL](#) [BR](#)

SUBJECT: BRAZIL'S CONDITIONAL CASH TRANSFER PROGRAM FIVE YEARS IN

REF: (A) 08 SAO PAULO 38; (B) 07 SAO PAULO 10; (C) BRASILIA 310

11. (SBU) SUMMARY: A little more than five years into its existence, Brazil's conditional cash transfer program Bolsa Familia (PBF) continues to stir debate over its effectiveness. PBF aims to alleviate poverty both by providing for beneficiaries' short-run basic needs and by creating conditions for long-run upward mobility through incentives for education and investments in human capital. Some national and international studies claim PBF has reduced poverty. While it has helped millions of poor Brazilians make ends meet on a month-to-month basis and inspires their fierce loyalty to both the program and to President Lula, its success in reducing poverty and promoting long-term social mobility remains less clear. Significant implementation challenges exist due to the decentralized structure of PBF as well as the danger of the program becoming a political electoral tool. Some experts believe the PBF cannot succeed in breaking the cycle of poverty before other underlying issues are addressed, especially the need for deep educational reform. While experts debate PBF's long-term benefits, the program remains politically popular, has become a virtual entitlement, and is unlikely to be questioned by any candidate for president in the run-up to next year's election. END SUMMARY.

-----  
BACKGROUND  
-----

12. (U) Bolsa Familia was established in 2004 when President Lula consolidated several cash transfer programs that had been introduced during the predecessor administration of President Fernando Henrique Cardoso. Lula dramatically expanded PBF during his first term, and the program now reaches 11.5 million families -- about 46 million individuals -- at a total annual cost of R\$12 billion (US\$ 6.7 billion). PBF participants represent approximately 80 percent of Brazil's poor, and about one quarter of the country's population. Fifty percent of beneficiaries reside in Brazil's underdeveloped northeast. Participation continues to increase as the government periodically raises the maximum income households can have and still be eligible and the program reaches more communities. Official government projections estimate the number of recipient households will reach nearly 13 million by the beginning of 2010.

13. (U) Families with monthly per capita income of US\$ 78 or less qualify for PBF. Based on income and family size, scaled payments are dispersed via an ATM card issued by the Caixa Economica Federal (federally-owned bank). On average families receive about US\$ 47 per month. In order to receive PBF benefits, parents must theoretically send their children to school, have them immunized and adhere to pre- and post-natal care. Literacy, professional and income-generating training programs are also made available to program beneficiaries. Approximately 93 percent of the persons who register on behalf of their families are women. The Ministry of Social Development and the Fight against Hunger (MDS) oversees PBF, but states and municipalities handle implementation.

-----  
ADMINISTRATION AND OVERSIGHT  
-----

14. (U) Bolsa Familia is a federally funded program that is implemented at the state and municipal level, with the bulk of the identification and registration of beneficiaries occurring at the municipal level. With over 5,000 municipalities individually managing the delivery of funds and program compliance, federal oversight to monitor effectiveness is difficult. On the other hand, many municipalities are small and it is relatively easy for these communities to accurately register poor families. In the city of Sao Paulo, however, only two municipal officials manage the program for a population of about 11 million residents. Given the large variation in local capacities and resources, it is not surprising that issues of fraud and lapses in beneficiaries' compliance with program conditionality have surfaced.

BRASILIA 00001098 002 OF 004

15. (SBU) The Federal Audit Court (TCU) evaluates PBF's execution along with civil society organizations. In 2009, the TCU found that about 1.2 million families who were not poor received PBF benefits illegitimately, and estimated that combating PBF fraud could save about US\$ 177 million per year. The TCU has relied on the cross-checking of major databases to uncover abuses. For example, comparing PBF beneficiary lists with other available databases revealed that approximately 40,000 politicians; 300,000 deceased people; and 100,000 vehicle owners were fraudulently receiving benefits. In 2009 in the State of Bahia, two officials stole US\$ 1 million in PBF funding through false contracts.

-----  
REDUCING POVERTY?  
-----

16. (U) Brazil's poverty rate -- as measured by per capita income of half the local minimum wage -- dropped from 39.4 percent of the population in 2003 to 30.3 percent in 2007, according to the World Bank. Recent data from Brazil's official government economic statistics office (IPEA) indicate that Brazilians are continuing to pull themselves out of poverty. IPEA reports that despite the current economic crisis, another 500,000 Brazilians have risen above the poverty line over the past year. With respect to PBF, questions remain as to how much of the drop in poverty can be attributed to PBF or to a combination of other cash transfer programs, most notably social security cash transfers to some 30 million retired rural workers, and Brazil's sustained economic growth over the last five years. Some academic research has suggested that PBF has played a partial role in Brazil's improving Gini coefficient (measure of income distribution equality), which has fallen from 53 to 49 since 2002. The World Bank continues to back PBF with technical and financial assistance, giving it credit for positive social outcomes in Brazil.

-----  
PULLING IN THE MARGINALIZED  
-----

17. (U) Aside from cash transfers, PBF has a number of positive secondary effects that help to integrate the poor into society according to economist Andre Portela Souza and social worker Paula Galeano, both based in Sao Paulo. By registering for PBF,

vulnerable populations become visible to both national and local level governments because participants must acquire and present documents they might have never had before: a birth certificate, ID card or proof of residence. Potentially, this evidence could help the GOB tailor programs to specific needy groups (the handicapped, those suffering from mental illness, the unemployed, etc.). In this way, PBF has put a human face on the formerly marginalized, bringing them in from the shadows and making their plight potentially more measurable.

¶18. (U) In addition to identification, PBF also integrates recipients into Brazil's growing consumer and banking cultures. Even families living in relatively remote areas can enroll in the program and in a matter of months receive an ATM card that allows for modern and direct access to PBF funds. With this card, the same families can then open a small checking account and apply for microloans. Anecdotal evidence suggests that, in addition to subsistence, PBF enables poor families to make small capital investments. For example, PBF authorities in Sao Paulo cited the example of a female PBF recipient who used the cash transfer to buy a washing machine to sell laundry services in her community.

-----  
MINIMAL IMPACT ON CHILD LABOR AND HEALTH  
-----

¶19. (U) Studies conflict on Bolsa Familia's impact on reducing child labor, indicating only a small long-term impact on reducing children's presence in the workforce. PBF is not incentive enough for children from poor families to abandon the labor market and the

BRASILIA 00001098 003 OF 004

short school day encourages families to have their children perform wage work outside of class. Children who work full-time receive an average wage that is higher than the sum of the average wage received by children working part-time with added program benefits. Studies show no difference in the rate of immunization, as the same numbers of children are being vaccinated with Bolsa Familia as without. Studies have yet to show the impact on pre- and post-natal care of PBF recipients.

¶10. (SBU) Interestingly, some employers may be encountering difficulties finding workers willing to give up their Bolsa Familia eligibility to join the workforce. Consulate Recife has heard of complaints raised from sugarcane growers from the states of Alagoas and Pernambuco that PBF has made it more difficult to find workers to cut the cane, saying that some of the men who normally performed this seasonal labor are opting not to because of Bolsa Familia stipends.

-----  
LACK OF COMPLIANCE AMONG BENEFICIARIES  
-----

¶11. (SBU) Another concern for officials is the failure of legitimate recipients to fulfill PBF requirements. Though school attendance is up overall thanks to PBF, in some key areas it lags badly, indicating a lack of high quality nationwide supervision and follow-up. According to Alexandre Marinis, a political economist and writer for Bloomberg, in the state of Goias 33 percent of children in families receiving PBF benefits were not enrolled in school. The same figure for Rio Grande do Sul was 32 percent, according to Marinis.

¶12. (U) Social workers in Sao Paulo tended to dismiss non-compliance violations. They stated that non-compliant PBF families were often the most marginalized, and that they needed more help, not less. A Sao Paulo-based social worker said, "The people whose kids are missing school or are not getting proper medical treatment, those are the most needy. They should not be kicked out of the program."

-----  
SCHOOL: ATTENDANCE UP, BUT QUALITY BLUNTS BENEFIT  
-----

¶13. (SBU) Ironically, school enrollment non-compliance may not be a significant factor as long as Brazil's public school system continues to underperform. Bolsa Familia was designed to encourage long-run upward mobility by setting conditions that children of beneficiary families attend school. Professor Andre Souza cites studies indicating that PBF has raised school enrollment by two percent and the amount of time students spend in school by three months. Unfortunately, increased school attendance does not guarantee educational gains, given the shortcomings of Brazil's public schools. As Souza explains, "The problem is not demand for schooling, but the supply of good schools." PBF brings more kids from marginalized families -- many of whom represent the first generation ever to attend school -- into an educational system that is woefully inadequate. Overcrowding, a truncated school day (Brazilian elementary and high school students only study three to four hours per day) and rigid school structures hostile to innovation frequently combine to undermine the benefits that might have been gained from increased attendance. While the public system is inadequate, efforts at reform are being made by the Ministry of Education and state and municipal governments, some of which are being supported by various Public Affairs programs in Brazil (reftel C).

¶14. (U) A study conducted by IPEA and the Brazil office of the United Nations Development Program (UNDP) found that Brazil's education system is not capable of assisting PBF beneficiaries escape poverty. The study modeled the impact the PBF would have had on Brazil's current poverty levels had it been instituted since 1976. In other words, the researchers attempted to go back in time

BRASILIA 00001098 004 OF 004

and simulate 30 years of PBF implementation, modeling perfect school enrollment of beneficiary children, to model how current levels of poverty would have been impacted. According to their study, current poverty levels would have only dropped from 25 percent (what it is today) to 22.3 percent. The researchers concluded that exposing more students to a weak public educational system would not have led to a significant improvement in poverty levels.

-----  
PBF AND POLITICS  
-----

¶15. (SBU) PBF remains a popular program, particularly with the poor, who constitute President Lula's political base. The program likely contributed to Lula's successful 2006 Presidential reelection. In the Northeast, President Lula's home region and an area which concentrates program beneficiaries, Lula averaged between 68-85 percent of the vote. Another study indicated that nationwide, for every one percentage-point increase in a state's population receiving PBF funding, Lula's voting share jumped by more than 7 percentage points in the 2006 race. This has led critics like PMDB Senator Jarbas Vasconcelos, from Pernambuco in the Northeast, to charge that PBF benefits amount to vote buying. Senator Vasconcelos also criticizes the PBF for not doing more to address the substandard education system that children attend.

-----  
COMMENT: A PARTIAL ANSWER AT BEST  
-----

¶16. (SBU) Bolsa Familia has ameliorated daily living conditions for the poorest Brazilians. Cash transfers, however, will not address the significant structural problems -- most importantly a weak public education system -- that continue to undermine longer-term goals of social and economic mobility and opportunity. The PBF also suffers from operational challenges that may be easier to address, including: building a more complete registry, designing mechanisms to systematically evaluate and police the program, creating a modern compliance management system, and, eventually proposing an exit strategy for beneficiaries. Nonetheless, to advance the PBF key goals of long-run upward mobility, education reform stands out as the critical need. Independent of Brazil's ability or willingness to address the underlying conditions impacting the country's poor populations, Bolsa Familia is politically popular and, as a result, no candidate in next year's presidential election is likely to

challenge it. The program appears to have become a permanent part of Brazil's political infrastructure -- almost a sacrosanct entitlement -- ensuring that it is here to stay. END COMMENT.

117. (U) This cable was co-drafted by Consulate Sao Paulo and Embassy Brasilia, with input from Consulates Rio de Janeiro and Recife.

KUBISKE